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SUBJECT: RUSSIA: DEPUTY TREASURY SECRETARY KIMMITT'S
MEETING WITH DFM DENISOV

11. (U) SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET
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12. (SBU) SUMMARY: In a June 22 meeting with Deputy Treasury
Secretary Kimmitt, Russian Deputy FM Denisov expressed

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interest in cooperating with Iraq for the long term ("we are
optimists") but indicated that debt relief is currently tied
up with other bilateral and economic considerations. On
bilateral foreign investment, Denisov suggested the U.S.
climate might be too restrictive (referring to CFIUS) and
that Russia was on the right path in terms of establishing
legal clarity for its own investment regime, even if the pace
is not as quick as investors would like. On North Korea,
Denisov agreed that it was Pyongyang's turn to take "concrete
steps." Finally, Denisov expressed some concern over the
growing mandate of FATF. End Summary.

13. (SBU) During their June 22 meeting, Deputy Treasury
Secretary Kimmitt, discussing the role of Treasury, mentioned

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progress in our economic relationship with China and
suggested the need for patience and principle. In response,
DFM Denisov suggested that if the word "China" was replaced
with "Russia," the situation would be similar. He explained
that the U.S. and Russia have similar strategic goals but
differ on the pace of actions. He quoted Mao, saying "the
prospects are bright, but the road is winding." He accused
the U.S. of "turning the key too tightly" with regard to
restrictions on foreign investment (a claim the Deputy
Secretary successfully refuted with statistics), and hoped

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that regulations would be made "clearer and more acceptable."

14. (SBU) Appreciating the "imperfections" of the foreign
investment situation in Russia, Denisov said that the system
still needs time to mature. He said that sometimes the
government takes actions that "are not comfortable for us or
our partners," but noted the trend is positive. He stressed,
however, that Russia welcomes U.S. investment and suggested

that recent large inflows of U.S. and other foreign investment into Russia are "just the beginning." He said Russia would continue working to make its actions more comprehensible. He agreed with Deputy Secretary Kimmitt's suggestion that Russia include both the security and economic communities in the regulatory review process on foreign investment. He also viewed positively the suggestion that Russian and American companies gather at some agreed upon forum to discuss our respective foreign investment regimes, once both countries had approved updated laws.

15. (SBU) On Iraqi and Afghan debt relief, Denisov started by saying the Russian Finance Ministry has the lead, while the Foreign Ministry is more involved with the political aspects of the issue. He said he believes a decision on Afghan debt relief is "very close," with about \$12 billion of debt to be given very favorable HIPC terms. He said debt relief for Iraq is still in process, and is part of a larger set of bilateral agenda items and of Russia's broader economic goals. He referred to pressure from the business community, especially from Lukoil, which has a pending claim on a field from pre-war days. He said many do not want to see Russia "give away" something without protecting its commercial interests in Iraq. He suggested that Russia is dealing with the debt issue bilaterally because the U.S. has told Russia on other issues that Russia needs to deal with Iraq directly as a sovereign nation. He stressed that Russia "is an optimist" on Iraq and wants to protect its long-term interests there.

16. (SBU) Deputy Secretary Kimmitt pointed to China's recent approval of debt relief as a model of disconnecting the debt forgiveness issue from other considerations, and suggested that conversations on other issues will likely progress more quickly once the debt situation is set aside. He added that Moscow, the only Paris Club member yet to approve debt relief, needs to show commitment to this issue in order to widen its participation in multilateral fora. Deputy Secretary Kimmitt and the Ambassador both stressed the U.S.

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stands ready to help Russia make necessary contacts with Iraqi officials and offered to help secure the attendance of

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Iraqi Ministers at proposed Intergovernmental Commission meetings.

17. (SBU) Again expressing optimism about the future of Iraq and the availability of opportunities, Denisov reiterated Russia's interest in debt forgiveness, but clung to the need for some assurances regarding the future of Russia's commercial interests in Iraq. Denisov then spoke for several minutes about the historical importance of Iraq to Russia, citing the fact that Russian-Arabic dictionaries are actually specific to the Iraqi dialect (he knows first hand from his stint as Ambassador to Egypt).

18. (SBU) In response to Deputy Secretary Kimmitt's expression of thanks regarding the transfer of funds to North Korea, Denisov praised the U.S. effort as "bold." He said the ball is now in North Korea's court and they must allow full access for IAEA inspectors.

19. (SBU) On Iran, Denisov lamented the lack of "finality" related to decisions made at the UNSC, saying the situation is too ambiguous. He agreed with Deputy Secretary's "hopeful but skeptical" assessment of the forthcoming meeting between EU Foreign Policy Chief Javier Solana and Iranian nuclear negotiator Larijani.

110. (SBU) Denisov also brought up Russia's concern with the widening scope of FATF, referring to the latest efforts to extend FATF control to WMD proliferators. He accepted Deputy Secretary Kimmitt's assertion that all illicit financial

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transactions are a form of money laundering (the original purview of FATF). He also agreed that FATF has a role to play in building up countries' capabilities to take financial actions against entities, if the political decision is made to do so. He cautioned however, that new approaches and rules need to be carefully constructed.

¶11. (SBU) Denisov also expressed deep concern about the "grave situation" in Gaza and the West Bank, saying "no one seems to be able to find the exit."

¶12. (SBU) Referring to President Putin's upcoming trip to the U.S., Denisov also put in a plug for Russia's bid to host the 2012 Winter Olympic games in Sochi. He said Putin was going from the U.S. to Guatemala to ask for support. He added that regardless of the outcome, the government was prepared to invest \$12 billion in the Sochi region to turn it into a world-class resort destination.

¶13. (U) This cable has been cleared by Deputy Secretary Kimmitt.
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